



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
AUDITOR-CONTROLLER

March 13, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **FRED JEFFERSON MEMORIAL HOME FOR BOYS – A FOSTER
FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACT
PROVIDER – FISCAL REVIEW**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Fred Jefferson Memorial Home for Boys (FJM or Agency), from January 1 to December 31, 2011. DCFS contracts with FJM for Foster Family Agency (FFA) services to recruit, certify, train, and support foster family homes. FJM is also licensed to operate two group homes (GHs), each with a resident capacity of six children. FJM's administrative office and GHs are located in the Second Supervisorial District.

At the time of our review, FJM had 347 children placed by Los Angeles County in 84 certified foster homes. DCFS paid FJM between \$1,430 and \$1,679 per child per month, for a total of \$2,611,459. FJM paid \$1,282,502 (49%) directly to foster parents, which exceeds the State's minimum requirement of 40%.

In addition, DCFS and the Probation Department contract with FJM to care for foster children placed in the Agency's GHs. DCFS paid FJM \$6,995 per child per month, based on a rate determined by the California Department of Social Services, for a total of \$881,631 in 2011.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits.

To enable FJM to begin taking corrective action as soon as possible, we discussed the findings and recommendations with Agency management on February 9, 2012.

Summary of Findings

We identified \$48,138 in unallowable expenditures, and \$1,648 in unsupported/inadequately supported expenditures. DCFS and the Agency also need to work together to resolve some potential overpayments.

FJM's audited financial statements for the years ended December 31, 2009 and 2010 contained a going concern qualification, because the Agency had operating losses of \$240,050 and \$84,359, respectively. The Agency also had negative net assets of \$582,971 as of December 31, 2010. According to the Internal Revenue Service, as of November 2011, the Agency owed \$630,997 in delinquent taxes, penalties, and interest. Since FJM had negative net assets and no reserves, it is unclear how the Agency will repay its liabilities or offset future operating losses. We initially advised DCFS of FJM's financial issues on December 23, 2011, so that DCFS could monitor FJM, and ensure that service quality is maintained.

FJM also needs to develop a cost allocation plan that meets the requirements of the federal Office of Management and Budget Circular A-122, and strengthen its internal controls over accounting and disbursements, payroll/personal files, petty cash, fixed assets, and prepare and submit its Semi-Annual Expenditure Reports to DCFS as required. In addition, FJM should ensure they properly classify employees and independent contractors. Details of our findings are discussed in Attachment I.

As part of our review, we also followed up on 11 recommendations from our March 6, 2007 audit of FJM, and noted that the Agency had not implemented three (27%) of the recommendations.

We have recommended that DCFS resolve the questioned expenditures, and collect any disallowed amounts. DCFS should also ensure that FJM management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes.

Review of Report

We discussed our report with FJM's management and DCFS on July 11, 2012. The period from July 11, 2012 to the issuance of this report includes a mandatory 90-day waiting period to allow the Agency to appeal the findings in the draft report. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates general agreement with our findings and recommendations. DCFS has instructed the Agency to establish a repayment agreement with the Los Angeles County Treasurer and Tax Collector for the total questioned costs of \$49,786.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist DCFS in managing its contractual relationships. Consequently, this report will be forwarded to DCFS, in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

We thank FJM's management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:JLS:RS:MWM

Attachments

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, DCFS
Jerry E. Powers, Chief Probation Officer
Reaver E. Bingham, Chief Deputy, Probation Department
Cecilia Jefferson, Executive Director, Fred Jefferson Memorial Home for Boys
Board of Directors, Fred Jefferson Memorial Home for Boys
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Fred Jefferson Memorial Home for Boys
Foster Family Agency and Group Home Contract Provider
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$48,138 in unallowable expenditures, and \$1,648 in unsupported/inadequately supported expenditures. In addition, the Department of Children and Family Services (DCFS) and the Fred Jefferson Memorial Home for Boys (FJM or Agency) need to work together to resolve some potential overpayments. Details of these expenditures/overpayments are discussed below.

Applicable Regulations and Guidelines

FJM is required to operate its Foster Family Agency (FFA) and group homes (GH) in accordance with the following federal, State, and County regulations and guidelines:

- FFA and GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Expenditures

We identified \$48,138 in unallowable expenditures:

- \$39,916 in interest payments, late fees, non-sufficient fund and over-limit bank fees, California Department of Social Services penalties, and a parking citation. Circular A-122 indicates that penalties, interest, and fines are unallowable costs. We also noted unallowable interest and late fees in our March 6, 2007 report on FJM.
- \$5,000 in attorney retainer fees. CDSS-MPP Section 11-402.825 states that retainer fees are unallowable.
- \$3,222 for repairs to the Executive Director's personal residence, non-Program related travel expenses, and vehicle insurance and registration for the Administrator's personal motor scooter. Circular A-122 Section 19 states that costs for personal expenses are unallowable.

Unsupported/Inadequately Supported Expenditures

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, or other supporting documents. Unsupported expenditures will be disallowed upon audit. In addition, A-C Handbook Section C.1.5 states that only expenditures that are necessary, proper, and reasonable to administer the Program are allowable.

We identified \$1,648 in expenditures that were either unsupported, or inadequately supported. Specifically:

- \$1,558 in petty cash expenditures, for which the Agency did not provide itemized receipts/invoices, or other supporting documentation, or the receipts/invoices provided did not establish that the expenditures were related to the FFA/GH Programs.
- \$90 in credit card charges for gasoline and travel. The Agency provided credit card statements, but no itemized receipts/invoices to support that the expenditures were FFA/GH-related.

As discussed later in the "Allocation of Costs" section, FJM did not have a plan to allocate its administrative costs among its funding sources or programs that meets Circular A-122 standards. During our review period, the Agency received funding for its FFA Program from five counties, and also operated two GHs, and a State-funded Food Nutrition Program. As a result, it is possible that some of the questioned costs identified in this section were related to the other counties or programs. Once FJM develops a cost allocation plan that meets Circular A-122 standards, DCFS will need to determine the amount of unallowable and unsupported/inadequately supported costs that should be recovered, and should refer questioned costs attributable to other jurisdictions to the appropriate agencies for collection.

Recommendations

1. **DCFS management resolve the \$49,786 (\$48,138 + \$1,648) in questioned expenditures, and collect any disallowed amounts.**
2. **FJM management ensure that foster care monies are used only for allowable expenditures.**

POTENTIAL DCFS OVERPAYMENTS

DCFS' records show some potential overpayments to FJM. DCFS and the Agency should work together to resolve the overpayments, and DCFS should collect any verified overpayments. FJM management should also ensure that future payment discrepancies are immediately reported to DCFS, and overpayments are repaid promptly.

Recommendations

3. **DCFS work with FJM to resolve the potential overpayments, and collect any verified overpayments.**
4. **FJM management ensure that future payment discrepancies are immediately reported to DCFS, and overpayments are repaid promptly.**

FJM's FINANCIAL CONDITION

FJM's audited financial statements for the years ended December 31, 2009 and 2010 contained going concern qualifications due to operating losses of \$240,050 and \$84,359, respectively. The Agency also had negative net assets of \$582,971, and owed \$630,997 in delinquent federal payroll taxes, penalties, and interest as of November 2011. With negative net assets and no reserves, it is unclear how the Agency will repay its liabilities and offset future operating losses that may occur.

FJM's financial condition could affect its ability to provide an adequate level of care to placed children. FJM management needs to develop a plan demonstrating how it will continue to provide an adequate level of care while addressing its financial viability issues. Given the Agency's tenuous financial position, DCFS must monitor FJM to ensure that service quality is maintained. We initially advised DCFS of these issues on December 23, 2011.

Recommendations

5. **FJM management develop a plan demonstrating how it will provide an adequate level of care while addressing its ongoing operating losses.**
6. **DCFS management carefully monitor FJM to ensure that adequate service quality is maintained.**

PAYROLL TAX LIABILITY

As noted earlier, FJM owes \$630,997 in delinquent federal payroll taxes (\$553,135), interest (\$64,577), and penalties (\$13,285). This liability resulted from FJM failing to pay all its federal payroll taxes in 2006 and 2010. Circular A-122 states that penalties and interest are unallowable costs. Since the Agency has no reserves, FJM management should submit a plan to DCFS demonstrating how the Agency will repay the penalties and interests without affecting the quality of care provided to County-placed children.

If the Agency proposes using current period County FFA and/or GH contract funds to repay this liability, DCFS will have to closely monitor to ensure the funds are used in accordance with California Department of Social Services regulations and that the quality of care to County-placed children is not affected.

Recommendation

- 7. FJM management submit a plan to DCFS demonstrating how the Agency will repay its liability to the IRS without affecting the quality of care to County-placed children.**

ALLOCATION OF COSTS

A-C Handbook Section C.2.0 requires agencies to allocate expenditures that benefit multiple programs or funding sources on an equitable basis. During our review period, FJM received funding from Los Angeles, San Bernardino, Riverside, Orange, and Sacramento counties for its FFA Program. In addition, FJM operated two GHs and a State-funded Food Nutrition Program. We noted the Agency did not have a cost allocation plan to allocate administrative expenses on an equitable basis to each funding source or program that meets Circular A-122 standards. We also noted that FJM did not have a cost allocation plan in our March 6, 2007 report.

Recommendation

- 8. FJM management prepare a written cost allocation plan to allocate administrative costs to each funding source and program on an equitable basis that meets Circular A-122 standards.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that FJM management takes action to address each of the compliance and internal control recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Accounting and Disbursements

We noted the following weaknesses in the Agency's accounting and disbursement procedures:

- A-C Handbook Section A.2.6 requires that payments to independent contractors be reported to federal and State taxing agencies. FJM did not issue a 1099 to one (6%) of 18 contractors reviewed. We noted a similar issue in our March 6, 2007 report.

- A-C Handbook Section B.2.0 states that checks should not be made payable to "Cash". FJM issued 110 checks, totaling \$53,646, payable to "Cash".

Recommendations

FJM management:

- 9. Ensure payments to independent contractors are properly reported to the federal and State taxing agencies.**
- 10. Stop making checks payable to "Cash".**

Employee Classification

A-C Handbook Section A.2.6 states that agencies should comply with Internal Revenue Service (IRS) guidelines in classifying employees and independent contractors, and should comply with all applicable reporting requirements to federal and State taxing agencies. In addition, IRS Publication 15-A indicates that an officer of a corporation is generally considered an employee.

In 2011, the Agency inappropriately classified six employees as independent contractors, including the Executive Director, and issued both Wages and Earnings (W2s) Statements and 1099s to the employees. The Agency indicated that these individuals were employed to perform administrative duties, but also performed social work duties, which was beyond their normal course of employment. The Agency issued 1099s to report the amounts paid to the employees for the social work duties. Since the individuals were employees of the Agency, the Agency should only issue W2s to them. We contacted the Agency's accountant, who indicated that they had advised FJM that social worker earnings should be reported on W2s for these employees.

Because the employees were also classified as independent contractors, the Agency did not pay the full amount of payroll taxes for these employees, which would make the Agency liable for the taxes, and any penalties and interest.

In addition, based on their general ledger, FJM inaccurately reported the total amounts paid to the six employees. FJM underreported payments to five of the six employees by a total of \$10,977, and overreported payments to one employee by \$1,909.

Recommendations

- 11. FJM management issue retroactive W2s to the six individuals who were also classified as independent contractors, and ensure wages are accurately reported to the federal and State taxing agencies.**

12. **DCFS management ensure the Agency does not use foster care funds to pay any fines, penalties, or interest assessed for the Agency's failure to properly classify these employees.**

Payroll/Personnel Records

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all Program expenditures, including employee salary rates. We reviewed the payroll and personnel records of 12 employees, and noted that none of the employees' personnel files contained the employees' current authorized salary rates. However, we determined the employees' salaries were reasonable based on the Child Welfare League of America Salary Study.

Recommendation

13. **FJM management ensure employees' salary rates are consistently documented and updated in the personnel files.**

Petty Cash

A-C Handbook Section B.2.3 allows agencies to have a petty cash fund of up to \$500 to pay for small incidental expenditures (e.g. postage, small purchases of office supplies, etc.). Agencies should not use the petty cash fund as a substitute for normal purchasing and disbursement practices. We noted that FJM used its petty cash fund as a substitute for normal purchasing and disbursement practices. Specifically, the Agency used petty cash to purchase food and clothing, which are not small incidental expenses. FJM should pay these non-incidental expenses by check, or debit/credit card, and not petty cash.

Recommendation

14. **FJM management ensure that the Agency does not use petty cash as a substitute for normal purchasing and disbursement practices.**

Fixed Assets Inventory

A-C Handbook Section B.4.2 requires agencies to tag all fixed assets, and keep a current fixed asset listing, including the item description, serial number, date of purchase, acquisition cost, and source(s) of funding used to purchase the asset. In addition, agencies should conduct an inventory of fixed assets at least annually, to ensure that all fixed assets are accounted for and maintained in proper working order.

We noted that FJM did not tag its fixed assets. In addition, the Agency's fixed asset listing did not include the serial number and source(s) of funding used to purchase the asset, and the Agency does not inventory its fixed assets annually.

Recommendations**FJM management:**

- 15. Ensure that all fixed assets are appropriately tagged, and the fixed asset listing includes the serial number and source(s) of funding for each asset.**
- 16. Inventory fixed assets at least annually to ensure that all fixed assets are accounted for, and maintained in proper working order.**

Semi-Annual Expenditure Reports

FFA Contract Section 17 and GH Contract Section 16 require agencies to prepare and submit Semi-Annual Expenditure Reports (SAERs) to DCFS within 60 days after the end of each reporting period. FJM has not submitted a SAER to DCFS since June 30, 2007. However, they were in the process of completing the 2009, 2010, and 2011 SAERs, and have since submitted those to DCFS. FJM needs to submit SAER reports to DCFS for 2007 to 2008. In addition, DCFS needs to develop a tracking system to ensure foster care providers submit required reports timely, and hold agencies accountable for failing to comply with FFA and GH Contract terms.

Recommendations

- 17. FJM management prepare and submit missing Semi-Annual Expenditure Reports to DCFS immediately, and ensure that future Reports are submitted to DCFS as required by the FFA and GH Contracts.**
- 18. DCFS ensure foster care providers submit the Semi-Annual Expenditure Reports timely, and hold agencies accountable for failing to comply.**



**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

425 Shatto Place, Los Angeles, California 90020
(213) 351-5502

PHILIP L. BROWNING
Director

October 19, 2012

Cecilia Jefferson, Executive Director
Fred Jefferson Memorial Home for Boys
P.O. Box 11146
Carson, CA 90749-1146

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

Dear Ms. Jefferson:

AUDITOR-CONTROLLER'S FISCAL REVIEW OF FRED JEFFERSON MEMORIAL HOME FOR BOYS - A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACT PROVIDER

We have reviewed your revised fiscal corrective action plan (FCAP) received on October 17, 2012 in response to the Auditor-Controller's final draft fiscal audit. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

With regard to the \$49,786 in disallowed amounts, a total of \$48,138 are unallowable expenditures and can not be repaid with foster care funds. As part of the FCAP, the Department requires that you identify the source of the funds from which payments will be made.

Please contact the Los Angeles County Treasurer and Tax Collector (TTC), by October 10, 2012 to schedule a date and time to sign a repayment agreement for the amount of \$49,786. The terms of the repayment agreement would be determined and negotiated with TTC. Please contact:

Fernando Rubio Jr., Operations Chief
Los Angeles County Treasurer and Tax Collector Revenue and Enforcement
225 N. Hill Street Room 122, Los Angeles, CA 90012
(213) 893-7968
frubio@ttc.lacounty.gov

If you have any questions, please contact Ali Gomaa-Mersal, Financial Specialist IV, at (213) 351-3209.

Sincerely,

Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachments

- c: Mike McWatters, Chief Accountant-Auditor (via electronic mail only)
Sandra Gomez, Principal Accountant-Auditor (via electronic mail only)
Elizabeth A. Howard, CSA III, OHCMD (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

**AUDITOR-CONTROLLER
COUNTY OF LOS ANGELES**

ATTACHMENT III

AUDITOR-CONTROLLER'S FISCAL REVIEW OF FRED JEFFERSON MEMORIAL HOME FOR BOYS - A FOSTER FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACT PROVIDER

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP dated September 25, 2012, submitted by Fred Jefferson Memorial Home for Boys, status of each recommendation is summarized as follows:

- 18 Recommendations (1-18) were fully addressed.
- Recommendations () were partially addressed.
- 5 Recommendations (1, 3, 6, 12 & 18) directed to the Department were addressed.

Recommendation Status

1. **DCFS management resolve the \$49,786 (\$48,138 + \$1,648) in questioned expenditures and collect any disallowed amounts.**

Agency Proposed FCAP: FJM will work together with DCFS management to establish a payment schedule to resolve the questioned expenditures and disallowed amounts.

DCFS Response: DCFS accepts the agency's response. With regard to the \$49,786 in disallowed amounts, a total of \$48,138 are unallowable expenditures and can not be repaid with foster care funds. As part of the FCAP, the Department requires that you identify the source of the funds from which payments will be made. Please contact the Los Angeles County Treasurer and Tax Collector (TTC), by October 10, 2012 to schedule a date and time to sign a repayment agreement for the amount of \$49,786. The terms of the repayment agreement would be determined and negotiated with TTC. Please contact:

Fernando Rubio Jr., Operations Chief
Los Angeles County Treasurer and Tax Collector Revenue and Enforcement
225 N. Hill Street Room 122
Los Angeles, CA 90012
(213) 893-7968
frubio@ttc.lacounty.gov

2. **FJM management ensure that foster care monies are used only for allowable expenditures.**

Agency Proposed FCAP: In accordance with Circular A-122, FJM will ensure that penalties, interest, attorney retainer fees and fines are not charged to DCFS.

The repair charges were inadvertently charged to DCFS in error.

FJM provided documentation for the disallowed travel expenses and believes that the related expenses were program oriented in nature and provided valued benefit to Agency programs. FJM will work closely with DCFS management in the future to determine requirements for qualified program related travel expenses.

The motor scooter identified was not the personal property of the Executive Director, but rather a game show prize that the Agency won during a game show appearance. Although FJM requested a cash equivalent donation to the Agency, the motor scooter was delivered instead. Due to a lack of storage facilities, the motor scooter is currently located in the Executive Director's garage until other arrangements can be made. Until the scooter is transferred to the group home, vehicle insurance and registration fees will not be charged to DCFS.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

3. **DCFS management work with FJM to resolve the potential overpayments and collect any verified overpayments.**

Agency Proposed FCAP: Agency will work together with DCFS management to resolve the potential overpayments, and remit payment of any verified amounts.

DCFS Response: DCFS accepts the agency's response.

4. **FJM management ensure that any future payment discrepancies are immediately reported immediately to DCFS, and any excess amounts are repaid promptly.**

Agency Proposed FCAP: FJM management will ensure that future payment discrepancies are immediately reported to DCFS, and any excess amounts are repaid promptly. Agency respectfully requests that payments for invoices submitted by FJM to DCFS management also be remitted in a timely manner allowing the Agency to better manage its financial responsibilities.

DCFS Response: DCFS accepts the agency's response.

5. **FJM management develop a plan demonstrating how it will provide an adequate level of care while addressing its ongoing operating losses.**

Agency Proposed FCAP: FJM has developed a plan to provide an adequate level of care while addressing its ongoing operating losses while also ensuring that adequate service quality is maintained. This plan includes an in depth cost analysis with potential downsizing in staff and services. This reduction will comply with all DCFS standard of care requirements for quality service. In addition to minimizing expenses, FJM is also planning to host two large fundraising events to generate program revenue and reduce outstanding debts. These fundraising events are tentatively scheduled for Winter 2012 and Spring 2013.

FJM will also consult with prominent grant writers in the area to increase fund raising opportunities.

DCFS Response: Please submit a copy of the plan to Fiscal Monitoring Unit by October 31, 2012. Fiscal Monitoring Section will work with Out of Home Care to monitor FJM level of care.

6. **DCFS management carefully monitor FJM to ensure that adequate service quality is maintained.**

Agency Proposed FCAP: FJM will comply with all monitoring mechanisms according to state and government regulations.

DCFS Response: Fiscal Monitoring Section will work with Out of Home Care to monitor FJM level of care.

7. **FJM management submit a plan to DCFS demonstrating how the Agency will repay its liability to the IRS without effecting the quality of care provided to the County's placed children**

Agency Proposed FCAP: Fred Jefferson has retained the legal services of A. Sam Akintimoye Esq., to resolve this issue. An offer in compromise has submitted to the Internal Revenue Service. Notice has been received that a decision will be made by May 8, 2013. If accepted, this will significantly reduce FJM's IRS liability.

In addition to minimizing expenses, FJM is also planning to host two large fundraising events in 2013 to generate program revenue and reduce outstanding debts. FJM will consult with prominent grant writers in the area to increase fund raising opportunities.

DCFS Response: DCFS accepts the agency's response. Please submit a quarterly status update to Fiscal Monitoring unit.

8. **FJM management prepare a written cost allocation plan to allocate administrative costs to each funding source and program on an equitable basis that meets Circular A-122 standards.**

Agency Proposed FCAP: FJM has prepared a written a cost allocation plan that allocates administrative expenses on an equitable basis to each funding source or program that meets Circular A-122 standards.

DCFS Response: DCFS accepts the agency's response. Please submit a copy of the cost allocation plan to Fiscal Monitoring Unit by October 31, 2012

9. **FJM management ensure payments to independent contractors are properly reported to the federal and State taxing agencies.**

Agency Proposed FCAP: FJM currently has procedures in place to ensure that independent contractor payments are properly reported to federal and State taxing agencies. For the one contractor reviewed that did not receive a Form 1099, FJM was under the impression that these legal services were provided by a corporation and not an individual contractor, as such, no form 1099 was issued. FJM will monitor consulting services closely to insure that proper reporting requirements are met.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

10. **FJM management stop making checks payable to "Cash".**

Agency Proposed FCAP: Checks were made to "cash" for petty cash purposes as provided in our supporting documentation. FJM will discontinue making checks payable to "cash". All petty cash withdrawals will be made to an individual payee.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

11. **FJM management issue retroactive W2s for the six individuals that were also classified as independent contractors, and ensure wages are accurately reported to the federal and State taxing agencies.**

Agency Proposed FCAP: FJM will contact the individuals identified and ensure that wages are accurately reported to the employees as well as federal and State taxing agencies. Retroactive W-2s will be issued as necessary. Currently there are no individuals at FJM classified as both contract social workers and employees.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

12. **DCFS management ensure the Agency does not use foster care funds to pay any fines, penalties, or interest assessed by the State Employment Development Department, Franchise Tax Board, or the IRS for the Agency's failure to properly classify these employees.**

Agency Proposed FCAP: Agency will ensure that funds used to pay any fines, penalties, and/or interest assessed by the State Employment Development Department, Franchise Tax Board, and/or the IRS for the Agency's failure to properly classify these employees will not include the use of foster care income.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

13. **FJM management ensure employees' salary rates are consistently documented and updated in the personnel files.**

Agency Proposed FCAP: FJM will review each employee file on their anniversary date to ensure that the information contained in the personnel file is current and accurate.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

14. **FJM management ensure that petty cash is not used as a substitute for normal purchasing and disbursement practices.**

Agency Proposed FCAP: FJM ensure that petty cash is only used for small incidental expenditures. FJM will pay non-incidental expenses by check, or debit/credit card, and not petty cash.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

15. **FJM management ensure that all fixed assets are appropriately tagged, and the fixed asset listing includes the serial number and source(s) of funding for each asset.**

Agency Proposed FCAP: FJM has developed a detailed listing of fixed assets including the item description, serial number, date of purchase, acquisition cost, and source(s) of funding used to purchase the asset.

DCFS Response: DCFS accepts the agency's response. Please submit a copy of the new fixed asset lists to Fiscal Monitoring Unit by October 31, 2012.

16. **FJM management inventory fixed assets at least annually to ensure that all fixed assets are accounted for, and maintained in proper working order.**

Agency Proposed FCAP: FJM will conduct an inventory of fixed assets annually during the month of January beginning 2013.

DCFS Response: DCFS accepts the agency's response.

17. **FJM management prepare and submit missing Semi-Annual Expenditure Reports to DCFS immediately, and ensure that future Reports are submitted to DCFS as required by the FFA and GH Contract.**

Agency Proposed FCAP: All semi-annual expenditure reports have been prepared and submitted to DCFS through June 30, 2012.

DCFS Response: DCFS accepts the agency's response. Fiscal Monitoring Unit has received the required reports.

18. **DCFS ensure foster care providers submit the Semi-Annual Expenditure Reports timely, and hold agencies accountable for failing to comply.**

Agency Proposed FCAP: FJM will ensure that all future reports are submitted in a timely manner.

DCFS Response: Fiscal Monitoring Unit has hired an Accountant III to ensure that foster care providers are in compliance with the contract reporting requirements to submit the SAERs timely.